FitchRatings

Iceland

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Local Currency

Long-Term IDR	A
Short-Term IDR	F1+

Country Ceiling	A+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	A
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	A

Source: Fitch Ratings

Data

	2022F
GDP (USDbn)	29
Population (m)	0.4

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (July 2022)
Country Ceilings Criteria (July 2020)

Related Research

Fitch Affirms Iceland at 'A'; Outlook Stable (September 2022)
Global Economic Outlook (September 2022)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Iceland

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Key Rating Drivers

High Income, Governance Drive Ratings: Iceland's 'A' rating is driven by its very high income per capita and very strong governance and human development indicators that are more consistent with those of 'AAA' and 'AA' rated countries. A favourable demographic composition (the share of people of working age was 65% in 2020) supports growth potential. The rating is constrained by the high, but declining, public debt burden, the small size of the economy and limited export diversification, which result in vulnerability to external shocks and balance of payments risks.

Macro Recovery: Economic recovery has strengthened in 2022. Real GDP grew by 6.1% yoy in 2Q22, underpinned by domestic demand and solid export growth. Fitch Ratings expects the strong recovery in tourism flows to continue. We expect real GDP growth of 5.9% this year, an upward revision from our previous review (4.5%). We expect real GDP growth to slow sharply to 1.9% in 2023 mainly due to weaker growth in Iceland's trading partners (in particular, the UK and the EU), which will be reflected in weaker tourism flows and tighter monetary policy.

Resilience to Energy Shock: Iceland has been resilient to the global energy shock and we expect this will continue to be the case. The share of renewables in the energy mix, at above 80%, is the highest in Europe, and Iceland does not rely on natural gas. The main impact of the energy crisis has been via higher prices of imported oil, which affected petrol prices at the pump. As fuel and food prices decline, the squeeze on household incomes should ease. Export demand from the UK and the EU will slow sharply and this will be the main driver of the slowdown next year.

High Inflation May Have Peaked: Headline consumer price inflation rose to 9.9% in July 2022, its highest level in nearly a decade, but declined slightly to 9.7% in August and more firmly to 9.3% in September. This follows a period of aggressive rate hikes by the Central Bank of Iceland (CBI) and the adoption of macroprudential measures. It is too early to tell if inflation has peaked, but there are some signs that it is moderating across the board.

In our view, the combination of higher interest rates, macro-prudential measures, pick-up in housing supply and gradual withdrawal of fiscal support mean that house price growth should ease further. Moreover, oil and commodity prices should continue to decline. We expect inflation to average 8.8% in 2022 and decline more markedly to 6.4% in 2023, still well above the CBI target.

Revenue Growth Underpins Deficit Reduction: We expect the general government deficit to decline to 4.7% of GDP in 2022 from 8.9% of GDP in 2021, better than our previous review (6.5% of GDP) and lower than the 'A' peer current median (-5% of GDP). The improvement reflects the stronger-than-expected revenue growth and the unwinding of the majority of pandemic-related support.

The government has introduced some measures to protect low-income households from higher inflation by bringing forward increases in social benefits and pensions. However, given the different nature of inflation, driven by house prices and not by energy prices, the size of the support package is small relative to other European countries.

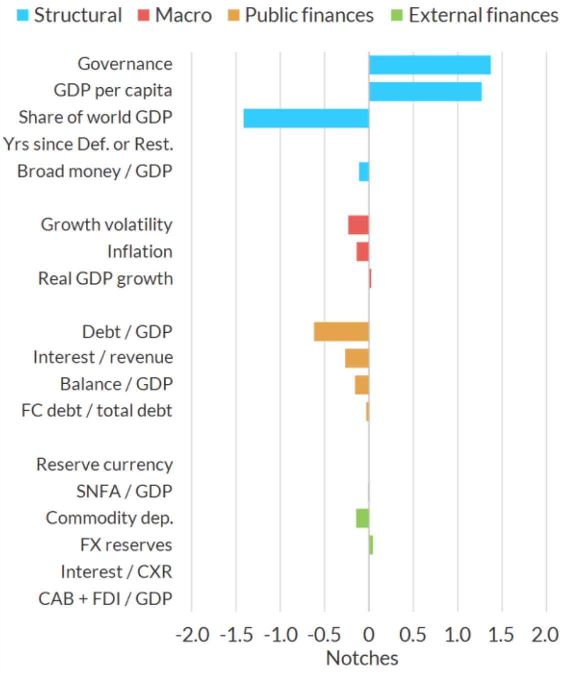
Debt on a Gradual Downward Path: We expect gross general government debt (GGGD) to decline gradually to 68.5% of GDP by 2024. The sovereign has high financing flexibility due to the extremely large pool of private pension funds' assets (205% of GDP), 65% of which is invested domestically. The government also has strong access to the international bond market, a large cash deposit buffer, and is supported by robust liquidity in the banking system. Moreover, government assets are large at 84% of GDP.

Rating Summary

Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR): A

Sovereign Rating Model: A

Contribution of variables, relative to 'A' median



Qualitative Overlay: 0

Adjustments relative to SRM data and output

Structural Features: No adjustment.

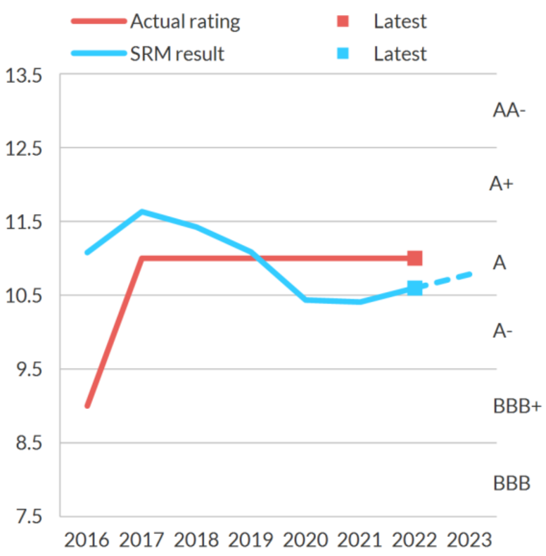
Macroeconomic Outlook, policies and Prospects: No adjustment.

Public Finances: No adjustment.

External Finances: No adjustment.

Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Rating Derivation History (last 10 reviews)

Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	A	A	0	0	0	0
18 Mar 22	A	A	0	0	0	0
24 Sep 21	A	A	0	0	0	0
26 Mar 21	A	A	0	0	0	0
23 Oct 20	A	A	0	0	0	0
22 May 20	A	A	0	0	0	0
22 Nov 19	A	A+	0	0	0	-1
24 May 19	A	A+	0	0	0	-1
7 Dec 18	A	A+	0	0	0	-1
8 Jun 18	A	A+	0	0	0	-1

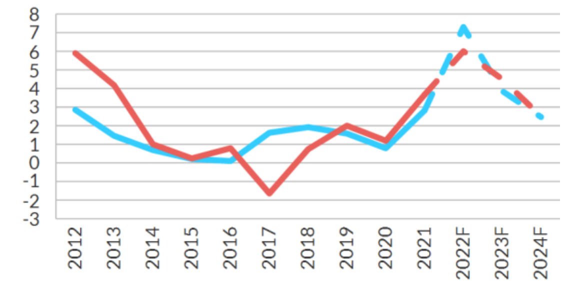
[a] The latest rating uses the SRM result for 2022 in the chart (this will roll forward to 2023 in July 2023).
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

Peer Analysis

Iceland — A Median

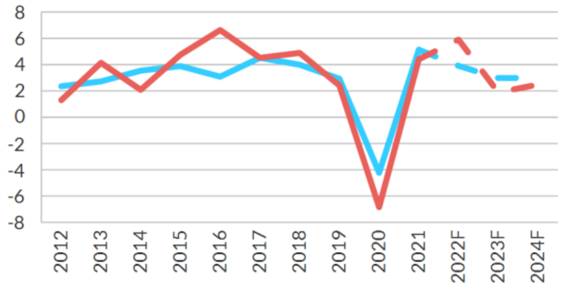
Consumer Price Inflation

(annual avg, %)



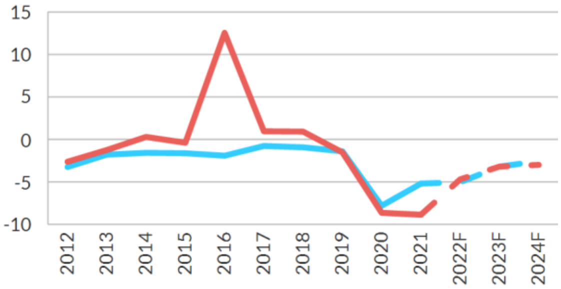
Real GDP Growth

(%)



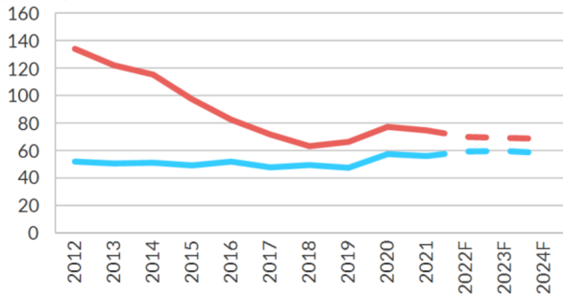
General Government Balance

(% GDP)



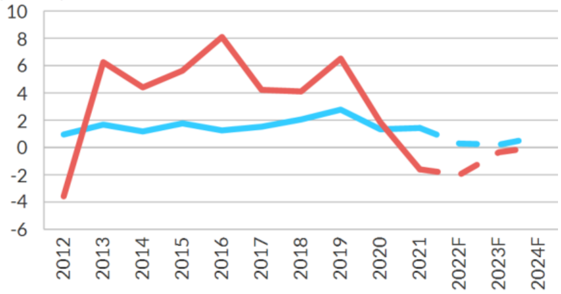
Gross General Government Debt

(% GDP)



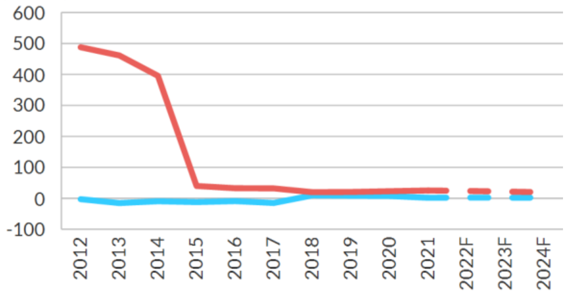
Current Account Balance

(% GDP)



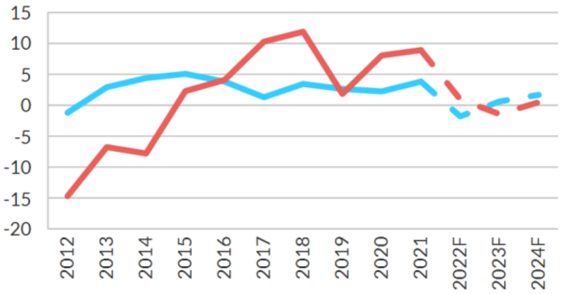
Net External Debt

(% GDP)



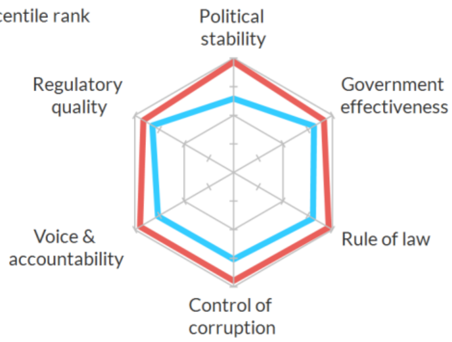
Real Private-Sector Credit Growth

(%)



Governance Indicators

Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2022F[a]	Iceland	A median	AA median	BBB median
Structural features				
GDP per capita (USD) [SRM]	76,528	28,649	49,536	15,016
Share in world GDP (%) [SRM]	0.0	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	94.2	75.6	84.3	59.1
Human development index (percentile, latest)	97.8	81.9	88.7	67.3
Broad money (% GDP) [SRM]	49.3	89.8	99.9	62.0
Private credit (% GDP, 3-year average)	97.3	73.4	104.2	57.9
Dollarisation ratio (% bank deposits, latest)	11.2	10.3	12.3	16.8
Bank system capital ratio (% assets, latest)	24.9	15.7	16.1	15.6
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	4.1	3.7	2.2	3.3
Real GDP growth volatility (complex standard deviation) [SRM]	4.2	3.1	2.3	3.3
Consumer price inflation (%, 3-year average) [SRM]	4.7	2.3	2.2	3.2
Unemployment rate (%)	3.8	6.4	5.0	7.8
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-5.6	-2.3	-0.7	-2.5
Primary balance (% GDP, 3-year average)	-1.1	-0.5	0.8	-0.5
Interest payments (% revenue, 3-year average) [SRM]	10.8	4.6	3.7	7.5
Gross debt (% revenue, 3-year average)	172.4	138.4	134.8	146.1
Gross debt (% GDP, 3-year average) [SRM]	71.2	42.8	39.8	36.6
Net debt (% GDP, 3-year average)	58.4	38.6	27.2	30.8
FC debt (% gross debt, 3-year average) [SRM]	15.5	10.5	0.9	36.2
External finances[c]				
Current account balance (% GDP, 3-year average)	-1.3	0.9	1.6	-1.7
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	-1.4	2.4	1.1	0.6
Commodity dependence (% CXR) [SRM]	46.5	11.5	14.9	19.6
Gross external debt (% GDP, 3-year average)	75.9	64.9	115.2	55.1
Net external debt (% GDP, 3-year average)	23.5	-7.9	-9.4	9.4
Gross sovereign external debt (% GXD, 3-year average)	17.1	18.9	16.9	31.1
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	10.9	11.7	5.5	2.1
External interest service (% CXR, 3-year average) [SRM]	2.6	2.4	4.5	4.2
Foreign-exchange reserves (months of CXP) [SRM]	4.7	4.4	2.9	4.9
Liquidity ratio	186.5	107.4	55.9	134.9

[a] Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See *Appendix 2: Data Notes and Conventions* for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = n.a. / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch's most recent *Macro-Prudential Risk Monitor* report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange-rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Floating'.

Rating Factors

Strengths

- Iceland ranks much higher on the World Bank Worldwide Governance Indicators and Human Development Index Indicators relative to the medians.
- GDP and income per capita are significantly higher than the 'A' and 'AA' medians.
- Pension funds' assets were 205% of GDP at end-August 2022, providing support to the sovereign's fiscal financing flexibility.
- A favourable demographic composition (the share of people of working age was 65% in 2020) supports growth potential.
- Foreign-exchange reserves were 7.6 months of current external payments in 2021, well above the 'A' peer current median (of four months).

Weaknesses

- Iceland is highly reliant on tourism. According to Statistics Iceland, the sector was 8% of GDP and 13.9% of employment prior to the Covid-19 pandemic in 2019 (versus 5% of GDP and 9.6% of employment at end-2021).
- Volatility of real GDP growth and inflation are higher than the 'A' peer median.
- GGGD was 75% of GDP at end-2021, well above the 'AA' current median.
- Iceland's public debt interest payments and the share of public debt maturing in a year are higher than the 'A' peer median.
- Gross and net external debt metrics are higher than the 'A' medians. However, the net international investment position, which includes equity and investment fund shares, was 39% of GDP in 2021, well above the current 'A' median of 12%.

Rating	Sovereign
A+	China
	Israel
	Malta
A	**Iceland**
	Japan
	Lithuania
	Ras Al Khaimah
	Saudi Arabia
	Slovakia
	Slovenia
A-	Andorra
	Chile
	Latvia
	Poland
	Spain

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finances:** Evidence that the government's economic and fiscal strategy will lead to a resumption of an upward trajectory of the government debt/GDP ratio over time.
- **Macro:** Renewed economic weakness or an adverse shock, for example due to a sharp slowdown in the tourism sector, a sustained correction in the real estate market and material negative impact on the banking sector.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances:** A sharp and sustained decline in the government debt/GDP ratio, for example through implementation of a fiscal consolidation strategy or sustained GDP growth over time.
- **Macro:** Sustained economic recovery beyond 2022, for example supported by a diversification of the export base and without generating macroeconomic imbalances.

Forecast Summary

	2019	2020	2021	2022F	2023F	2024F
Macroeconomic indicators and policy						
Real GDP growth (%)	2.4	-6.8	4.4	5.9	1.9	2.5
Unemployment (%)	3.9	6.4	5.9	3.8	4.0	4.2
Consumer price inflation (annual average % change)	2.0	1.2	3.7	6.0	4.5	2.5
Policy interest rate (annual average, %)	3.0	0.8	2.0	6.0	6.0	5.5
General government balance (% GDP)	-1.5	-8.6	-8.9	-4.7	-3.2	-3.0
Gross general government debt (% GDP)	66.2	77.2	74.6	69.8	69.1	68.5
ISK per USD (annual average)	122.6	135.4	127.0	129.2	126.5	123.5
Real private credit growth (%)	1.8	8.1	8.9	0.9	-1.4	0.5
External finance						
Merchandise trade balance (USDbn)	-1.0	-0.6	-1.3	-1.1	-1.3	-1.4
Current account balance (% GDP)	6.5	1.9	-1.6	-2.0	-0.3	0.0
Gross external debt (% GDP)	78.6	90.0	82.9	74.6	70.1	66.1
Net external debt (% GDP)	20.4	22.8	25.1	23.7	21.6	19.5
External debt service (principal + interest, USDbn)	2.1	1.7	1.2	2.2	1.3	1.6
Official international reserves including gold (USDbn)	6.8	6.4	7.1	6.5	6.6	6.9
Gross external financing requirement (% int. reserves)	0.7	13.2	20.4	32.6	15.5	14.4
Real GDP growth (%)						
US	2.3	-3.4	5.7	2.9	1.5	1.3
China	6.0	2.2	8.1	3.7	5.3	5.0
Eurozone	1.3	-6.4	5.4	2.6	2.1	2.1
World	2.6	-3.3	5.8	2.9	2.7	2.7
Oil (USD/barrel)	64.1	43.3	70.6	105.0	85.0	65.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(ISKbn)	2022	2023
Uses	**555.5**	**548.7**
Budget deficit	173.1	124.8
MLT amortisation	382.4	423.9
Domestic	297.4	328.9
External	85.0	95.0
Sources	**555.5**	**548.7**
Gross borrowing	536.0	558.8
Domestic	371.5	433.5
External	164.6	125.4
Privatisation	53.0	0.0
Other	-60.0	-10.1
Change in deposits (- = increase)	26.5	0.0

Source: Fitch Ratings

External Finances

(USDbn)	2022	2023
Uses	**2.3**	**1.0**
Current account deficit	0.6	0.1
MLT amortisation	1.7	0.9
Sovereign	0.6	0.0
Non-sovereign	1.1	0.9
Sources	**2.3**	**1.0**
Gross MLT borrowing	1.7	1.2
Sovereign	0.5	0.1
Non-sovereign	1.2	1.1
FDI	-0.1	-0.1
Other	0.0	0.0
Change in FX reserves (- = increase)	0.6	-0.1

Source: Fitch Ratings

Credit Developments

Resilience to the Energy Shock

Following a contraction of 6.8% in 2020, Iceland's real GDP grew by 4.4% in 2021. This was slightly better than our initial expectations, but weaker than the 'A' peer current median. The recovery has strengthened over the course of 2022: real GDP grew by 6.1% yoy in 2Q22 (7.6% in 1Q22), underpinned by domestic demand and solid export growth. We expect the strong recovery in tourism flows to continue. High frequency indicators (passengers thorough Keflavik Airport and foreign credit card spending) point to the continuation of the strong tourism performance in the third quarter. We expect real GDP growth of 5.9% this year, an upward revision from our previous review (4.5%).

The other two key sectors of the economy, aluminium and fishing, have also performed well so far this year, with both benefiting from the improving terms of trade. The prices of aluminium and some species of fish have risen strongly in 1H22. However, aluminium prices have decreased sharply in recent months, which will have a negative impact on the profits of aluminium smelters. Marine products' exports volumes have increased over the course of 2022, mainly owing to the increase in the quota for capelin, which is the largest since 2003. Iceland's aquaculture sector is small, but rising at a fast pace with significant investments to increase productive capacity.

The recovery and the financial support provided to businesses and households during the pandemic has led to a sharp drop in unemployment in 2021. The labour market strengthened further this year; unemployment was 3.2% in July 2022, down from the pandemic's peak of 11.6%. in January 2021. There is some anecdotal evidence of labour shortages particularly in the construction sector. However, at the same time, immigration has picked up and it should help in easing pressures on labour demand. Wage pressures are likely to intensify as real wage growth has turned negative in June 2022.

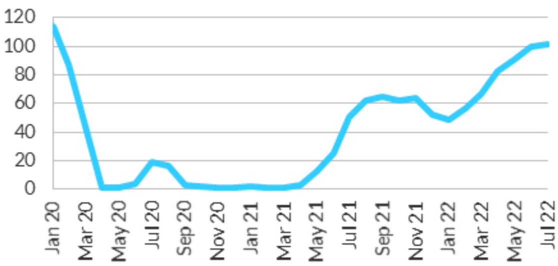
The Icelandic economy is partly insulated from the impact of the Ukraine-Russia war. The share of renewables in the energy mix at above 80% is the highest in Europe, while gas is only a very small portion of it. As a result, household purchasing power and industry profit margins have been less affected by higher energy costs than the rest of Europe. Moreover, direct trade and financial sector linkages with Russia, Ukraine and Belarus are very limited. Nevertheless, weaker GDP growth in the main trading partners, particularly in the UK and the eurozone, will have a negative effect on Iceland's export performance.

We expect real GDP growth to slow sharply to 1.9% in 2023 mainly due to weaker growth in Iceland's trading partners (in particular, the UK and the EU), which will be reflected in weaker tourism flows and tighter monetary policy. However, the US market (the largest market of origin) should provide some buffer for the tourism sector. Icelandic households will experience less of an income squeeze relative to the rest of western Europe and this should provide some buffer to private consumption. Domestic energy prices will remain unaffected by the gas crisis as most of Iceland's energy is generated by geothermal and hydropower sources.

In Europe, we expect the economic impact of the shock to fade sharply in 2024 as production structures and consumption patterns adjust and new gas infrastructure facilities come on stream. We expect this to benefit Iceland where real GDP will grow by 2.5% in 2024.

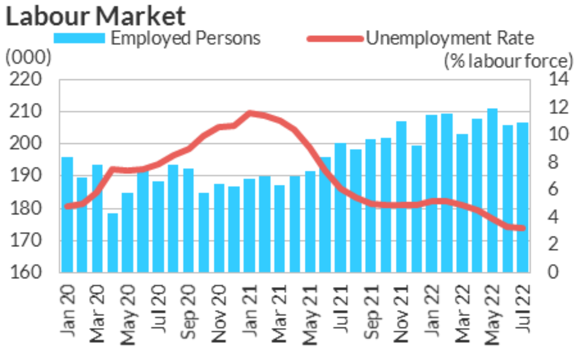
Tourist Arrivals Relative to 2019

Index 2019=100
Foreign tourist arrivals



Source: Fitch Ratings, Statistics Iceland

Labour Market



Source: Fitch Ratings, Statice

Prolonged Rate Hiking Cycle to Tackle Inflation

Headline consumer price inflation rose fast over the course of 2022, but its dynamics are different relative to the rest of western Europe. In Iceland, it is mostly driven by domestic factors, such as a more rapid rebound in economic activity, rising house prices and wage growth. The increase in global commodity prices is also a factor, though not the main driver, due to the predominance of renewables in the country's energy mix. If measured by the Harmonised Index of Consumer Prices (HICP) – the benchmark indicator of inflation for the EU and the eurozone – Iceland's inflation was the lowest across the European Economic Area (EEA), after Switzerland. However, the benchmark inflation rate targeted by the CBI is the domestic CPI, which considers owner-occupied housing costs, and is much higher: HICP inflation was 6.4% in July 2022, while domestic CPI was 9.9%, well above the CBI's target of 2.5%.

The strong labour market performance and growth in nominal wages have contributed to higher inflation. The swift recovery in the labour market has been accompanied by steady wage growth. Nominal wages rose by 8.1% in the 12 months to July 2022; however, real wage growth has declined sharply since June 2021 as CPI picked up. In May 2022, real wage growth turned negative for the first time since 2010. In June 2022, real wage growth declined by 1.7%. A large number of collective wage agreements in the private sector expire in November 2022, and the trade unions will likely push for pay settlements well above inflation. Our inflation forecasts assume that nominal wages will grow by 7%, but we think risks are to the upside.

In September 2022, inflation declined to 9.3%, the second consecutive monthly decline (9.7% in August). This follows a period of aggressive rate hikes by the CBI. There are some signs that inflation is moderating across the board. The CPI (excluding housing) decreased as well to 7.1% in August from 7.5% in July. House prices and imported inflation have been the main inflation drivers so far this year. Recent data suggest that these factors are easing.

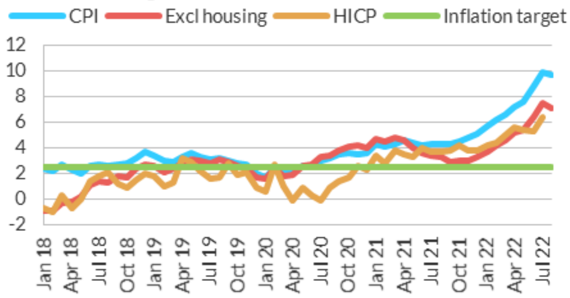
The housing market has been buoyant since the start of the pandemic. House prices rose by nearly 16% in 2021 in nominal terms, and just above 10% in real terms. Despite rising interest rates and tighter macroprudential measures, housing demand has remained buoyant and nominal prices rose by 24.8% in the 12 months to August 2022. Fitch's *Macro Prudential Risk Monitor* indicates that real house prices are above their long-term trend. However, there are some early signs that the housing market may be cooling. According to the Housing and Infrastructure Agency, in August, the level of purchase agreements was the lowest since April 2015. Moreover, housing supply has picked up quite strongly in recent months. The supply of flats in the capital region has increased more than initially expected; neighbouring municipalities to the capital region have experienced similar improvements in supply. The average time to sale has also increased. All these factors suggest that the housing market may be slowing.

The CBI has withdrawn its pandemic-related accommodative policies, and, since May 2021, has raised the key policy rate to 5.75% from 0.75%. In addition, it has also adopted a raft of macroprudential measures, including the lowering of the maximum loan-to-value ratio to 80% from 85% and to 85% from 90% for first-time buyers, an increase in the countercyclical capital buffer to 2% from 0% (effective from September 2022) and introducing a limit to debt service-to-income at 35% for mortgage borrowers and 40% for first-time buyers.

In our view, the combination of higher interest rates, macro-prudential measures, pick-up in housing supply and gradual withdrawal of fiscal support mean that house price growth should ease further. Moreover, oil and commodity prices should continue to decrease. We expect inflation to average 8.8% in 2022 and decline more markedly to 6.4% in 2023 – still well above the CBI target. For HICP, we estimate inflation to average 6% this year and 4.5% in 2023.

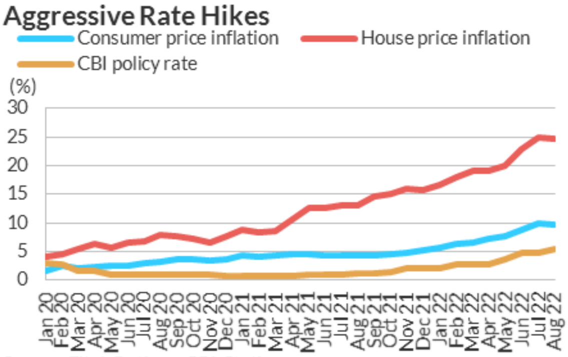
Various Inflation Measures

12-Month change



Source: Fitch Ratings, CBI

Aggressive Rate Hikes



Source: Fitch Ratings, CBI, Statice

Revenue Growth Underpins Deficit Reduction

We expect the general government deficit to decline to 4.7% of GDP from 8.9% of GDP in 2021, better than our previous review (6.5% of GDP) and lower than the 'A' peer current median (-5% of GDP). The improvement reflects the stronger-than-expected revenue growth (underpinned by stronger economic activity, but also higher inflation boosting VAT receipts) and the unwinding of the majority of pandemic-related support. The government has introduced some measures to protect low-income households from higher inflation by bringing forward increases in social benefits and pensions. However, given the different nature of inflation, driven by house prices and not by energy prices, the size of the support package is small (0.2% of GDP) relative to other European countries.

For 2023, we expect a deficit of 3.2% of GDP in line with the projected 'A' median (3.2% of GDP). The government has announced a raft of measures to rebuild fiscal buffers and prevent overheating of the economy, as recommended by the IMF. The measures account for 0.7% of GDP and include increases in excise taxes, changes to duty-free discounts and increases in taxation for aquafarming industry. The government is also planning additional measures, including a reform of road taxation (yet to be defined) and a review of the public investment plan. The government does not intend to reinstate its own fiscal rules before 2026: in our view, this suggests that it intends to maintain fiscal flexibility and that it will likely extend further fiscal support to the economy should the recovery be weaker than expected.

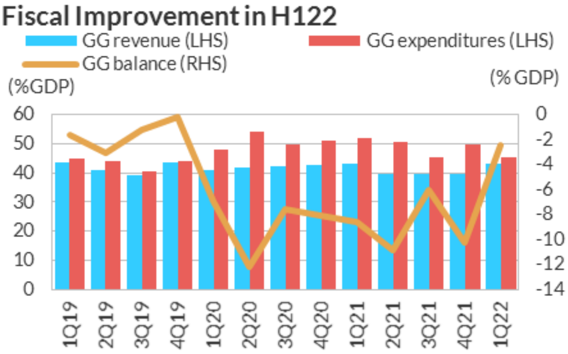
Debt on a Gradual Downward Path

The government-to-debt ratio declined to 74.6% of GDP in 2021 from 77.2% in 2020, despite a large deficit in 2021, underpinned by nominal GDP growth of 6.3% and proceeds from asset sales. We expect GGGD to decline gradually to 68.5% of GDP by 2024. The sovereign has high financing flexibility due to the extremely large pool of private pension funds' assets (205% of GDP at end-August 2022), 65% of which is invested domestically. The government also has strong access to the international bond market, a large cash deposit buffer and is supported by robust liquidity in the banking system. Moreover, government assets are large at 84% of GDP. In March 2022, the Treasury sold a second stake (22.5%) in Islandsbanki raising ISK52 billion (1.4% of GDP), which is earmarked for debt reduction. This follows the sale of the first 35% stake in Islandsbanki, raising ISK55 billion (1.7% of 2021 projected GDP). Further sales of government equity stakes are likely[1] and could accelerate debt reduction over the coming years. However, we do not factor in further asset sales in our debt projections.

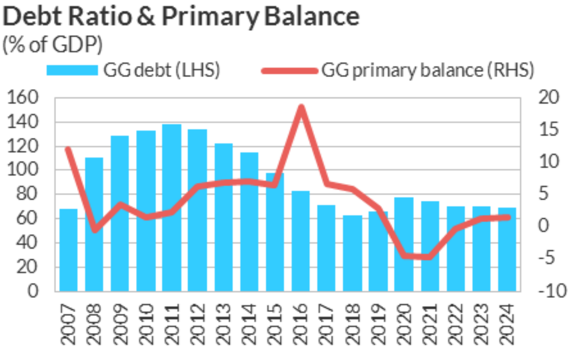
Iceland's debt structure has improved in recent years. About 89% of central government debt is denominated in ISK, while only 11% is denominated in FC. The low share of FC debt reduces risks from exchange-rate movements. Since the start of the pandemic, the government has financed the budget deficit predominantly in the domestic market. It has also used the liquid assets of the Housing Finance Fund (HFF) – a 100% state-owned company. We estimate that about 21% of the 2021 financing requirement was financed by the use of HFF assets. Following a comprehensive revision of the public finance statistics in 2019, the HFF is within the general government scope. As the HFF assets wind down, GGGD should decline. As HFF assets become liquid, either because mortgages are amortised or paid in advance, they will become a source of funding that will either lower the borrowing requirements or allow the retirement of other government debt.

Iceland's public debt interest payments and the share of public debt maturing in a year are higher than the 'A' peer median. The inclusion of the HFF within the general government perimeter has led to a sharp rise in interest costs, as the outstanding HFF bonds carry high annual interest costs of about ISK50 billion (1.6% of GDP). However, we do not consider the sizeable interest income that the government receives from its large assets (1.8% of GDP; 4.3% of revenue in 2021). If included, the net interest payment-to-revenue ratio would be about 5.8% of GDP, well below the gross figure of 10.1% of GDP and closer to the 'A' peer median (4.6%).

[1] The 2023 budget includes the sale of the remaining shares of Islandsbanki for an estimated ISK75 billion. We do not include these in our debt dynamics projections.



Source: Fitch Ratings, Statice



Source: Fitch Ratings, Statice

External finances have been broadly resilient throughout the pandemic, despite the collapse in tourism receipts. Following a surplus in 2020, the current account deficit (CAD) widened to 1.6% of GDP in 2021 (revised downwards by the CBI from the initial estimate of 2.8%). We expect the CAD to widen further to 2% of GDP this year. The CAD was 5% of GDP in 1Q22 and 4.3% in 2Q22. This reflects a sharp rise in services imports (Icelanders travelling abroad), but also the improved performance of foreign-owned companies in Iceland, which has resulted in a sharp worsening of the primary income balance. We expect the balance of payments to improve in 2H22, as the services balance improves, underpinned by the tourism recovery and an improvement in the income balance. With aluminium prices declining, profits of the foreign-owned aluminium smelters are set to decline. We expect the CAD to be 2% of GDP at end-2022, and to decline more gradually thereafter as import-intensive investment slows down.

The Icelandic krona was broadly stable in 2022. The net international investment position (NIIP) improved despite the CAD and was at 24.7% of GDP in 2Q22. Pension funds dominate the domestic financial market, and their activities have a strong impact on the NIIP and on the currency. In 2021, pension funds' net purchases of foreign assets were ISK53 billion (1.6 % of 2021 GDP), broadly unchanged from 2020.

Iceland has a 50% limit on the share of overseas foreign holdings in pension assets. The authorities are debating a potential lifting or removal of the limit. If the legislation were changed, we would not expect a significant change in funds' activity and do not think this would lead to excessive capital outflows. We would expect pension funds to continue diversifying their assets abroad given the reduced differential between international and domestic interest rates. However, we expect the process to remain orderly and gradual. The risk of sudden sharp capital outflows from pension funds remains low, as we believe it would not be in the funds' interest to excessively destabilise the krona. Among other things, a weaker currency would hurt the pension funds' stock market value and inflate their own liabilities.

Public Debt Dynamics

According to Fitch's baseline projections, GGGD will decline gradually to 68.5% of GDP by 2024 and decline slowly, thereafter. In a scenario of looser fiscal policy, the debt ratio would rise to 74% of GDP by 2026. A low-growth scenario would see the debt continuing to rise over time and reach 74% of GDP by 2026. Conversely, further sales of government equity stakes could accelerate debt reduction over the coming years.

Debt Dynamics - Fitch's Baseline Assumptions

	2020	2021	2022	2023	2024	2025	2026
Gross general government debt (% of GDP)	77.2	74.6	69.8	69.1	68.5	68.2	67.2
Primary balance (% of GDP)	-4.6	-4.8	-0.1	1.5	1.5	1.5	1.8
Real GDP growth (%)	-6.8	4.4	5.9	1.9	2.5	2.3	2.3
Average nominal effective interest rate (%)	5.9	5.8	7.3	7.5	7.3	6.6	6.1
ISK/USD (annual avg.)	135.4	127.0	129.2	126.5	123.5	122.0	122.0
GDP deflator (%)	3.6	6.0	7.0	4.0	3.0	2.5	2.5
Stock-flow adjustments (% of GDP)	0.0	0.0	0.7	0.0	0.0	0.0	0.0

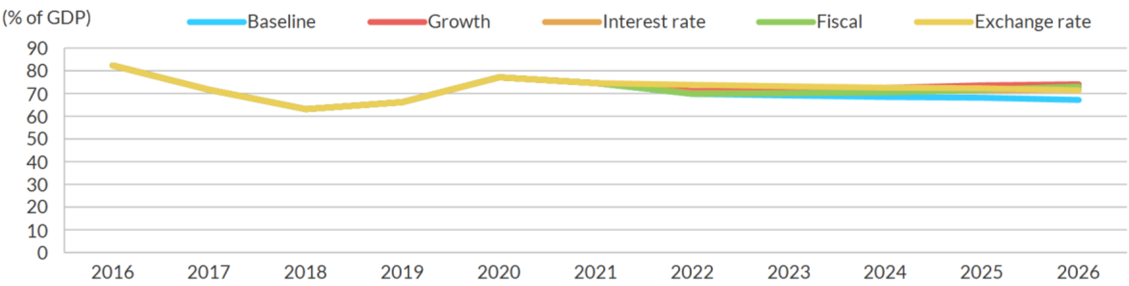
Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	Real GDP growth 1.9% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Gradual Fiscal Easing. Primary balance deficit averaging 0.7% of GDP over 2023-2031
Exchange rate	40% devaluation at end-2022

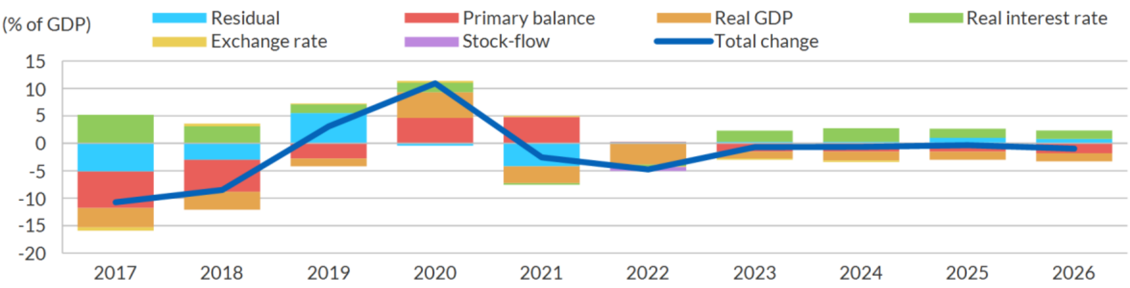
Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's GGGD/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Revenue	59.0	45.4	44.8	41.9	41.9	40.2	42.0	41.8	41.5
Expenditure	46.4	44.4	43.8	43.4	50.6	49.1	46.7	45.0	44.5
o/w interest payments	6.1	5.7	4.9	4.3	4.0	4.1	4.6	4.7	4.5
Interest payments (% revenue)	10.3	12.6	11.0	10.2	9.6	10.1	11.0	11.2	10.8
Primary balance	18.6	6.7	5.9	2.8	-4.6	-4.8	-0.1	1.5	1.5
Overall balance	12.5	1.0	0.9	-1.5	-8.6	-8.9	-4.7	-3.2	-3.0
Gross government debt	82.4	71.6	63.1	66.2	77.2	74.6	69.8	69.1	68.5
% of government revenue	139.6	157.9	141.1	158.2	184.1	185.6	166.3	165.4	165.0
Domestic debt	74.3	67.2	58.8	60.1	68.8	64.0	58.5	57.9	57.4
External debt	8.1	4.4	4.4	6.1	8.4	10.6	11.3	11.2	11.1
Local currency	74.3	67.2	58.8	60.1	68.8	64.0	58.5	57.9	57.4
Foreign currency	8.1	4.4	4.4	6.1	8.4	10.6	11.3	11.2	11.1
Central government deposits	11.4	7.2	7.9	8.4	16.6	14.6	12.2	11.5	10.9
Net government debt	71.0	64.5	55.3	57.9	60.5	60.0	57.6	57.6	57.6
Financing		-1.0	-0.9	1.5	8.6	8.9	4.7	3.2	3.0
Domestic borrowing		-3.4	-3.7	5.2	6.5	1.9	2.0	2.7	2.5
External borrowing		-2.8	-0.2	1.9	1.8	2.8	2.2	0.8	0.7
Other financing		5.2	2.9	-5.6	0.3	4.3	0.5	-0.3	-0.3
Change in deposits (- = increase)		3.6	-1.2	-1.0	-8.0	0.4	0.7	0.0	0.0
Privatisation		0.0	0.0	0.0	0.0	1.7	1.4	0.0	0.0
Other		1.6	4.2	-4.6	8.3	2.2	-1.6	-0.3	-0.3

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Current account	1.7	1.0	1.1	1.6	0.4	-0.4	-0.6	-0.1	0.0
% GDP	8.1	4.2	4.1	6.5	1.9	-1.6	-2.0	-0.3	0.0
Goods	-0.8	-1.5	-1.5	-1.0	-0.6	-1.3	-1.1	-1.3	-1.4
Services	2.2	2.6	2.4	2.1	0.5	0.8	1.1	1.1	1.2
Primary income	0.4	0.1	0.4	0.7	0.7	0.3	-0.4	0.2	0.3
Secondary income	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.1	-0.1	-0.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.6	1.1	1.4	0.9	1.6	0.1	1.0	0.8	0.7
Direct investment	-0.7	-0.2	0.5	0.7	0.7	0.0	0.1	0.1	0.1
Portfolio investment	1.9	2.3	1.0	0.6	0.9	0.1	0.9	0.7	0.6
Derivatives	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	-1.8	-1.1	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.2	-0.7	0.4	-0.1	1.0	1.0	1.0	1.0	1.0
Change in reserves (+ = increase)	2.4	-0.8	0.0	0.6	-0.2	0.4	-0.6	0.1	0.3
International reserves, incl. gold	7.2	6.6	6.3	6.8	6.4	7.1	6.5	6.6	6.9
Liquidity ratio (%)	54.6	191.5	164.8	183.7	207.3	224.7	186.5	206.0	195.5
Memo									
Current external receipts (CXR)	11.1	12.3	13.4	12.2	8.4	10.7	16.0	17.6	19.3
Current external payments (CXP)	9.5	11.3	12.3	10.6	8.0	11.1	16.5	17.7	19.3
CXR growth (%)	10.8	10.7	8.7	-9.0	-30.7	26.9	49.0	10.5	9.4
CXP growth (%)	4.3	19.3	9.2	-14.1	-23.9	38.3	48.6	7.3	8.6
Gross external financing requirement	-0.9	0.0	1.0	0.0	0.9	1.3	2.3	1.0	0.9
% International reserves	-17.6	-0.5	15.9	0.7	13.2	20.4	32.6	15.5	14.4
Net external borrowing	-5.5	-5.9	-1.3	-0.9	-1.0	1.7	0.0	0.4	0.4

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Gross external debt	26.0	22.5	20.1	19.5	19.5	21.2	21.3	21.6	22.0
% GDP	125.2	91.1	76.6	78.6	90.0	82.9	74.6	70.1	66.1
% CXR	233.8	182.8	150.3	160.1	231.1	198.0	133.2	122.6	114.2
Short-term debt (% GXD)	6.4	7.2	7.9	6.9	7.6	8.3	8.3	8.3	8.3
By debtor									
Sovereign	4.0	2.8	2.6	3.0	2.8	3.7	3.6	3.7	3.8
Monetary authorities	0.4	0.4	0.4	0.5	0.4	0.7	0.8	0.9	1.0
General government	3.6	2.5	2.2	2.5	2.4	3.0	2.7	2.8	2.8
Banks	4.2	5.8	5.9	5.5	5.9	6.4	6.7	7.0	7.1
Other sectors	17.8	13.9	11.7	10.9	10.9	11.1	11.0	11.0	11.1
Gross external assets (non-equity)	19.3	14.6	15.0	14.5	14.6	14.8	14.5	15.0	15.5
Sovereign	7.2	6.6	6.3	6.8	6.4	7.1	6.5	6.6	6.9
International reserves, incl. gold	7.2	6.6	6.3	6.8	6.4	7.1	6.5	6.6	6.9
Other sovereign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	2.3	3.1	3.6	3.1	3.4	3.3	3.3	3.3	3.3
Other sectors	9.8	5.1	5.1	4.7	4.8	4.5	4.4	4.3	4.2
Net external debt	6.8	7.9	5.2	5.1	5.0	6.4	6.8	6.7	6.5
% GDP	32.6	31.8	19.7	20.4	22.8	25.1	23.7	21.6	19.5
Sovereign	-3.2	-3.7	-3.7	-3.8	-3.7	-3.4	-2.9	-2.9	-3.0
Banks	2.0	2.8	2.3	2.5	2.6	3.2	3.1	2.9	2.6
Other sectors	8.0	8.8	6.6	6.3	6.0	6.6	6.6	6.7	6.9
International investment position									
Assets	35.0	29.2	29.2	32.1	35.3	39.5	-	-	-
Liabilities	34.6	28.7	26.9	27.1	27.5	29.5	-	-	-
Net	0.4	0.5	2.3	4.9	7.9	10.0	-	-	-
Net sovereign	3.2	3.7	3.7	3.8	3.7	3.4	2.9	2.9	3.1
% GDP	15.6	15.1	14.2	15.1	16.9	13.2	10.2	9.4	9.2
External debt service (principal + interest)	1.5	1.6	2.6	2.1	1.7	1.2	2.2	1.3	1.6
Interest (% CXR)	5.9	4.6	3.5	3.7	4.9	2.5	2.7	2.4	3.4

Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)	A

Sovereign Rating Model — Applied Rating[d]: A

Input Indicator	Weight (%)	2021	2022	2023	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
					Model Result and Predicted Rating			10,6 = A
Structural features								**9.54**
Governance indicators (percentile)	20.3	n.a.	94.2	n.a.	-	94.2	0.074	6.95
GDP per capita (USD)	13.3	n.a.	76,528	n.a.	Percentile	94.9	0.042	3.95
Nominal GDP (% world GDP)	13.2	n.a.	0.03	n.a.	Natural log	-3.5	0.596	-2.10
Most recent default or restructuring	5.0	n.a.	None	n.a.	Inverse 0-1[a]	0.0	-2.017	0
Broad money (% GDP)	1.4	n.a.	49.3	n.a.	Natural log	3.9	0.188	0.73
Macroeconomic performance, policies and prospects								**-1.12**
Real GDP growth volatility	5.1	n.a.	4.2	n.a.	Natural log	1.4	-0.815	-1.16
Consumer price inflation	2.9	3.7	6.0	4.5	3-yr avg.[b]	4.7	-0.058	-0.27
Real GDP growth	2.4	4.4	5.9	1.9	3-yr avg.	4.1	0.076	0.31
Public finances								**-2.39**
Gross general govt debt (% GDP)	8.3	74.6	69.8	69.1	3-yr avg.	71.2	-0.022	-1.55
General govt interest (% revenue)	4.5	10.1	11.0	11.2	3-yr avg.	10.8	-0.043	-0.47
General govt fiscal balance (% GDP)	2.6	-8.9	-4.7	-3.2	3-yr avg.	-5.6	0.048	-0.27
FC debt (% of total general govt debt)	2.4	13.8	16.4	16.4	3-yr avg.	15.5	-0.006	-0.10
External finances								**0.08**
Reserve currency (RC) flexibility	7.8	n.a.	0.0	n.a.	RC score 0 - 4.5[c]	0.0	0.549	0
SNFA (% of GDP)	7.3	13.2	10.2	9.4	3-yr avg.	10.9	0.011	0.13
Commodity dependence	1.1	n.a.	46.5	n.a.	Latest	46.5	-0.004	-0.19
FX reserves (months of CXP)	1.8	n.a.	4.7	n.a.	n.a. if RC score> 0	4.7	0.036	0.17
External interest service (% CXR)	0.4	2.5	2.7	2.4	3-yr avg.	2.6	-0.006	-0.02
CAB + net FDI (% GDP)	0.1	-1.6	-2.2	-0.5	3-yr avg.	-1.4	0.001	-0.00
Intercept Term (constant across all sovereigns)								**4.49**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change, which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	**0**
Structural features	0
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Iceland's credit profile does not support an uplift of the LT Local-Currency (LC) IDR above the LT FC IDR. In Fitch's view, neither of the two key factors supporting the upward notching of the LT LC IDR cited in the criteria is present, namely: strong public finance fundamentals relative to external finance fundamentals; and previous preferential treatment of LC creditors relative to FC creditors.

Country Ceiling

Fitch lifted Iceland's Country Ceiling to 'A+' at the May 2019 rating review, one notch above Iceland's LT FC IDR. This reflects the record of liberalisation of capital controls since 2016. In March 2019, the remaining offshore krona-denominated assets that were restricted from conversion into FC assets at market rates were released.

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
18 Mar 22	A	F1+	Stable	A	F1+	Stable	A+
22 May 20	A	F1+	Negative	A	F1+	Negative	A+
24 May 19	A	F1+	Stable	A	F1+	Stable	A+
08 Dec 17	A	F1	Stable	A	F1	Stable	A
07 Jul 17	A-	F2	Positive	A-	F1	Positive	A-
13 Jan 17	BBB+	F2	Positive	BBB+	F2	Positive	BBB+
22 Jul 16	BBB+	F2	Stable	BBB+	F2	Stable	BBB+
24 Jul 15	BBB+	F2	Stable	A-	-	Stable	BBB+
30 Jan 15	BBB	F3	Positive	BBB+	-	Positive	BBB
14 Feb 13	BBB	F3	Stable	BBB+	-	Stable	BBB
17 Feb 12	BBB-	F3	Stable	BBB+	-	Stable	BBB-
16 May 11	BB+	B	Stable	BBB+	-	Stable	BB+
05 Jan 10	BB+	B	Negative	BBB+	-	Negative	BB+
23 Dec 09	BBB-	F3	Negative	A-	-	Negative	BBB-
08 Oct 08	BBB-	F3	Watch Negative	A-	-	Watch Negative	BBB-
30 Sep 08	A-	F2	Watch Negative	AA	-	Watch Negative	A
01 Apr 08	A+	F1	Negative	AA+	-	Negative	AA-
15 Mar 07	A+	F1	Stable	AA+	-	Stable	AA-
21 Feb 06	AA-	F1+	Negative	AAA	-	Negative	AA
17 Jun 04	AA-	F1+	Stable	AAA	-	Stable	AA
31 Mar 03	AA-	F1+	Stable	AAA	-	Stable	-
15 Feb 02	AA-	F1+	Negative	AAA	-	Negative	-
26 Feb 01	AA-	F1+	Stable	AAA	-	-	-
21 Sep 00	AA-	F1+	Stable	AAA	-	Stable	-
03 Feb 00	AA-	F1+	-	AAA	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	3	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	3	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' comprises a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Iceland has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Worldwide Governance Indicators have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and a key rating driver with a high weight. As Iceland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Worldwide Governance Indicators have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and are a key rating driver with a high weight. As Iceland has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Worldwide Governance Indicators is relevant to the rating and a rating driver. As Iceland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Iceland has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Iceland, as for all sovereigns. As Iceland has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg:

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Iceland

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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